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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

April 7, 2006

The Honorable Richard Shelby
Chairman, Subcommittee on
Commerce, Justice, and Science
Committee on Appropriations
United States Senate
Washington, DC 20510

The Honorable Barbara Mikulski
Ranking Member, Subcommittee on
Commerce, Justice, and Science
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Richard and Barbara:

As your subcommittee begins the process of making appropriations for Fiscal Year 2007, we submit the following request for funding the Small Business Administration (SBA) programs. The SBA is a tremendous resource, significantly contributing to our economic growth and job creation. With the SBA's budget reflecting less than 3/100ths of a percent of the total budget, the agency's programs and services have time and again proven their value, having helped to create or retain over 5.3 million jobs in the United States since 1999.

The Senate-passed budget resolution for Fiscal Year 2007 includes a \$130 million funding increase for the SBA over the Administration's proposed budget of \$624 million. Excluding the Disaster Loan program, the Administration's proposed budget represents a 25 percent reduction in the agency's core loan and technical assistance programs over the last six years. Moreover, this signifies an astounding 37 percent reduction in SBA's overall budget since 2001.

The SBA is a vital resource to America's small businesses, which are the backbone of our nation's economic foundation, creating nearly three-quarters of all new jobs and generating about 50 percent of the nation's Gross Domestic Product. The requested appropriations will restore needed funding, prevent higher costs from being borne by small businesses, and provide essential support for the SBA's core programs that continue to prove their success and economic importance, including the Small Business Development Center program, Microloan program, Women's Business Center program, HUBZone program and Veterans Business Development program, among others.

Preventing an Increase in Fees. The SBA has artificially reduced its budget request to Congress by \$7 million through proposed new fees on small businesses. These new fees would require new authorizing legislation, which has not found any support in our Committee. The pertinent programs, the 7(a) and 504 Business Loan Programs and the Small Business Investment Company Program for venture capital, are zero-subsidy programs, receiving no appropriations because they are already funded entirely by fees charged to small businesses and to the lenders

that participate in the programs. The SBA's proposed new fees would pose a significant burden on small businesses to further subsidize the SBA's administrative costs (in addition to the fees and taxes they already pay). Congress created the SBA's loan programs to assist small businesses that cannot obtain sufficient financing elsewhere, and it is illogical to subject these same small businesses to additional fees, over and above those fees needed to pay for their own loan guarantees. Therefore, this fee increase should be rejected, and we request that the SBA's budget allocation be increased by \$7 million to render these fee increases unnecessary.

Disaster Program. The Administration has proposed that Congress amend the Federal Disaster Loan program so that borrowers would pay a higher interest rate after the first five years, rather than the current practice of providing a lower fixed rate for the entire period of a loan. The Administration estimates the SBA's appropriations could be reduced by \$41 million by charging disaster victims higher rates. Because disaster loans have a maximum term of thirty years, borrowers may encounter many years of higher interest rates as a result of this proposal. Putting a greater burden on disaster victims is not a policy that Congress should adopt. We, therefore, respectfully request that the SBA's budget allocation be increased by \$41 million to reflect consistency with current law.

Microloan Program. The SBA has proposed that the Microloan program be terminated and the program's loans be approved through the 7(a) program instead. Microloan borrowers, however, have unique credit qualities, collateral, and financing needs that are significantly different from the 7(a) program. If the Microloan program is terminated, these borrowers will find it difficult or even impossible to secure financing to fund their new or established small businesses. The Microloan program is a small, efficient, cost-effective and successful program that is an important source of financing for entrepreneurs who have no other available options. For example, since the first loan was made through SBA's Microloan program 14 years ago, there have been only two losses. Therefore, we request the Microloan program be funded at \$2 million, and the Microloan Technical Assistance program at \$16.4 million.

SCORE. SCORE is a volunteer-based small business assistance network that is both cost-efficient and effective. By utilizing a cadre of over 11,000 experienced volunteers, SCORE provides expert training to hundreds of thousands of entrepreneurs and small business owners each year at low or no-cost. During the last 42 years, SCORE volunteers have served over 7 million clients and in FY2005 donated 1.3 million hours of volunteer service and assisted over 403,000 clients. After four years of requesting level funding at \$5 million, this is the first year the SBA has requested less for SCORE: \$4.95 million. This cut, combined with the years of flat-funding, would further hinder the program from expanding and updating its scope of services. Consequently, we recommend that SCORE funding for FY2007 be increased to \$7 million so SCORE can adequately meet the needs of small business.

Small Business Development Center (SBDC) Program. The SBDC program is the SBA's largest and most extensive technical assistance program, with more than 1,100 service delivery points nationwide. Since its inception, the SBDC program has served almost ten million clients, including new business start-ups, struggling firms, and firms seeking to grow and expand. The SBDC program is a tremendous bargain for taxpayers, returning \$2.66 in Federal tax revenues

for every dollar spent. In addition, in 2004, SBDCs' training and counseling helped create or retain 155,160 jobs; generated almost \$6.1 billion in new sales; and saved an additional \$5.8 billion in sales.

Over the past six years, in spite of cuts or level funding, the SBDCs have exceeded the SBA's goals, reaching more customers and providing higher levels of service. However, in FY2005, the consequences of inadequate funding hurt small businesses as a reduction in counselors meant SBDCs counseled fewer clients for fewer hours than the year before. The SBA's proposal to decrease funding for SBDCs to approximately \$87 million would only exacerbate this situation, and we therefore request increasing the SBDC funding to \$110 million to counter the rising cost of inflation, hire needed counselors, and expand their services.

U.S. Export Assistance Centers (USEACs). The U.S. Export Assistance Centers (USEACs) are one-stop shops that provide small to medium sized businesses with local export assistance through a partnership with the U.S. Department of Commerce, the U.S. Export-Import Bank, and other agencies. The SBA is the only partner in the USEAC that offers loans that are geared toward small businesses developing or expanding in the export market.

U.S. small business exporters now account for almost \$300 billion of yearly export sales — nearly one-third of total U.S. exports. It is estimated that for every \$1 billion earned in U.S. export dollars, approximately 14,000 U.S. jobs are created or retained. However, in 2005 our trade deficit reached an all time high of \$728.5 billion. It is essential that we support our nation's small business exporters and the valuable and unique assistance that USEACs provide to exporters. Therefore, we recommend funding the USEAC program at \$5 million. That amount will fund 20 SBA employees at USEAC hubs, provide for a sufficient budget to deliver assistance to their regions, and allow for the expansion of the program.

Procurement Center Representatives (PCRs). Small business contractors save taxpayers' dollars and provide innovative solutions for the government's needs. In FY2003, small business contractors used federal contracts to create over 490,000 jobs. Bundling of government contracts continues to be a major barrier for small businesses. The SBA polices contract bundling practices through its Procurement Center Representatives (PCRs), which are placed at major federal procurement centers to review proposed acquisition plans and advocate for more competition in contracting.

Earlier this year, the SBA Inspector General reported that 192 bundling contracts were not reviewed by the SBA, and they estimated it cost small businesses approximately \$380 million in contracting opportunities as a result of inadequate staffing levels. The SBA proposes to maintain its FY2006 staffing level of only 58 PCR slots, which would leave approximately 100 of the top procurement centers without dedicated PCR coverage. Therefore, we request \$10 million for additional funding to the Salaries and Expenses account to hire 100 more PCRs.

Historically Underutilized Business Zone (HUBZone) Program. The HUBZone program, which gives contracting preferences to firms in economically distressed areas, is a vital tool of urban and rural development. The program has delivered significant Federal contracting opportunities to the areas that need them the most. Unfortunately, the Federal government has consistently failed to meet the HUBZone statutory prime contracting goal every year. Therefore, we request that the HUBZone program be funded at its full authorization of \$10 million.

7(j) Procurement Technical Assistance Program. The 7(j) Program is intended to provide procurement technical assistance and training to small disadvantaged firms and owners of firms located in economically distressed areas. Lack of training for these businesses in areas such as accounting practices, bidding on contracts, and writing Federal grant applications are some of the main reasons why these small firms are unable to compete with larger firms. We recommend funding of \$2.5 million for the 7(j) program, in order to expand program access to those categories of small firms which historically have not had high participation.

SBIR/STTR Technical Assistance Grants (Federal & State Partnership and Rural Outreach). The Federal and State Technology Partnership program (FAST) provides technical assistance to small businesses that compete for government grants and contracts under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. FAST is a competitive grants program that allows each state to provide services that support the SBIR and STTR programs. In the 2000 SBIR Reauthorization Act, Congress created the FAST program to strengthen the technological competitiveness of small business concerns in all 50 states. At that time, Congress also extended the SBIR Rural Outreach Grant Program ("ROP"), which provides certain states, with relatively low participation in the SBIR and STTR programs, an opportunity to receive grants to support statewide efforts to increase their participation levels in the programs. Given the proven success of these programs, we ask that you fund FAST at \$3 million and the ROP account at \$1 million.

New Markets Venture Capital Program. The New Markets Venture Capital program is a public-private partnership designed to promote venture capital financing in promising small businesses located in low-income communities where traditional venture capitalists rarely invest but where there is a need to create wealth and quality local jobs. Several NMVC firms target companies in Alabama, Maryland, Alabama, Tennessee, Georgia, Mississippi, Kentucky, Maryland, Washington, D.C., West Virginia, Ohio and Maine. Unfortunately, this program has not been funded in the last six years and funding set aside for additional investments has been rescinded. Most recently, in fiscal year 2006, the SBA rescinded funds that NMVC firms had been seeking to invest. In order to help this important sector, we request \$2.5 million for this program.

Veterans Business Development Program. From September 2001 to December 2005, over 480,000 National Guard and Reserve personnel have been mobilized in support of current military operations. Thirty-five percent of Guard and Reserve members work for small businesses or are self-employed. The SBA's Office of Veterans' Business Development (OVBD) has made a concerted effort to reach out to small businesses affected by National Guard and

Reserve force. Given the sheer numbers of Guard and Reserve personnel mobilized, the OVBD's resources have been stretched thin. The OVBD has been required to broaden its delivery of services, as directed by Executive Order 13360, to provide procurement training programs for service-disabled veterans. Therefore, to stem the effects of Guard and Reservist deployments on small businesses and to better assist service-disabled veterans, we respectfully request \$1.5 million for the OVBD.

Native American Outreach Program. According to the U.S. Census Bureau, poverty rates for Native Americans are higher than any other group and unemployment rates are well above the national average. In order to help our Native American communities build a sustainable economic environment, we request the SBA's Native American Outreach program to be funded at \$2 million.

PRIME. The PRIME program provides in-depth, one-on-one business counseling and training to low-income entrepreneurs at the most basic stages of starting a business. While access to credit is vital to micro-entrepreneurs and low-income individuals, there is often a severe gap between their current experience and that which is necessary to be credit-worthy. Receiving PRIME technical assistance can fill that gap and help recipients become successful in business. Despite this critical need, the SBA proposes to eliminate this program for the sixth year in a row. We request \$5 million for PRIME technical assistance, so that the smallest of small businesses can continue to receive this unique assistance to grow and become successful.


Women's Business Centers (WBCs). The success of women-owned firms is undeniable. According to the Center for Women's Business Research, in 2004, firms 50 percent or more owned by women generated almost \$2.5 trillion in revenues and employed more than 19 million workers, making them the fastest growing segment of today's economy. The SBA has estimated that in FY 2005, the Women's Business Center program provided counseling and training to 144,316 clients and according to the SBA, in 2003, WBCs helped generate \$235 billion in revenue. However, the SBA proposes to decrease funding for the WBC program, after four years of level funding at \$12.5 million. Given these results, we recommend the WBC program funding for FY2007 be increased to \$16.5 million to support existing centers and new centers.

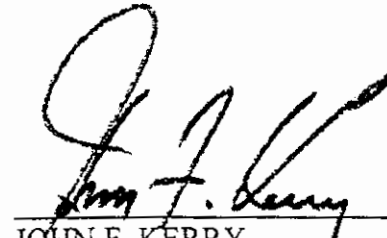
Non-Credit Program Line-Item Funding. We do not support the SBA's proposal to eliminate line-item funding for SBA programs. Specifically, the SBA removes line-item funding for the 7(j), HUBZone Program, Advocacy Research, Native American Outreach, National Ombudsman and the USEAC programs and includes them in the agency's overall operating budget. This proposal limits transparency and reduces the oversight authority of this Committee and the Appropriations Committee to ensure that funds allocated to a specific program are applied. We recommend that you continue to separately fund these programs so that Congress can continue to properly oversee them.

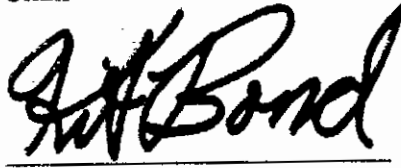
The Honorable Richard Shelby
The Honorable Barbara Mikulski
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Thank you for your consideration of these requests for the SBA's programs. If you have any questions about this letter please contact us directly or have your staff contact Wes Coulam, Republican Staff Director, or Naomi Baum, Democratic Staff Director, of the Committee, at (202) 224-5175.


Sincerely,

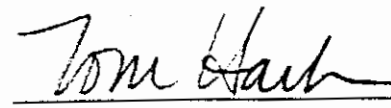

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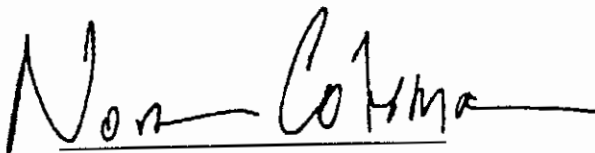

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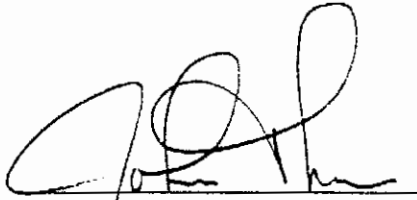

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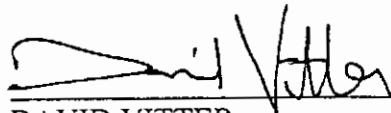
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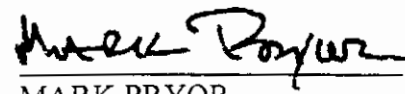
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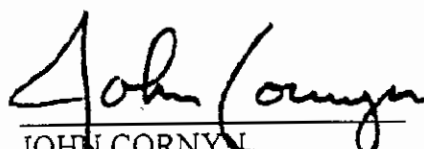
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